

DOCUMENT RESUME

ED 232 905

SO 014 778

TITLE America: The Trillion Dollar Lemonade Stand.
Fundamentals of Free Enterprise, No. 1. Revised.

INSTITUTION American Fletcher National Bank and Trust Co.,
Indianapolis, IN.

PUB DATE 82

NOTE 11p.

PUB TYPE Guides - Classroom Use - Materials (For Learner)
(051)

EDRS PRICE MF01/PC01 Plus Postage.

DESCRIPTORS *Capitalism; Competition; Consumer Economics; *Cost
Effectiveness; *Economic Progress; Economics
Education; Efficiency; *Entrepreneurship; High
Schools; *Input Output Analysis; Investment; Labor
Utilization; Productivity; Risk; Small Businesses;
*Social Exchange Theory

IDENTIFIERS *Free Enterprise System; PF Project; Profit
Maximization; United States

ABSTRACT

Designed for high school economics students as a public service project of the American Fletcher National Bank, the booklet examines the American free enterprise system as it relates to the traditional lemonade stand and its ability to make a profit. The parallel is made by considering some basic principles: (1) the constant need for capital to keep businesses growing; (2) the continuing push to develop goods and services which will be acceptable to the buying public; (3) the steady obligation to meet payrolls and other operating expenses and to pay back shareholders for their investment; and (4) the growing demand by government for a bigger bite of corporate profits through taxation. Examples of the way the entire business system in America has grown from humble beginnings to being the most productive, efficient economic system in the world today are seen in: the evolution of Ford Motor Company from a machinist's apprentice tinkering with an experimental gas engine; the Gillette enterprise created by a traveling salesman who deplored sharpening razors; and Disneyland and Disney World stemming from an advertising illustrator working in a garage studio. The document emphasizes that competition for profit increases efficiency while forcing down prices, thus providing an increasingly higher standard of living, higher pay, and a larger middle class than anywhere else in the world. (LH)

* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *

ED232905

U.S. DEPARTMENT OF EDUCATION
NATIONAL INSTITUTE OF EDUCATION
EDUCATIONAL RESOURCES INFORMATION
CENTER (ERIC)

☐ This document has been reproduced as
received from the person or organization
originating it.

X Minor changes have been made to improve
reproduction quality.

• Points of view or opinions stated in this docu-
ment do not necessarily represent official NIE
position or policy.

"PERMISSION TO REPRODUCE THIS
MATERIAL HAS BEEN GRANTED BY

David R.

Hamer

TO THE EDUCATIONAL RESOURCES
INFORMATION CENTER (ERIC)."

AMERICA: THE TRILLION DOLLAR LEMONADE STAND
FUNDAMENTALS OF FREE ENTERPRISE
No. 1 Revised

1982

American Fletcher National Bank and Trust Co.
Indianapolis, Indiana

50 014 778

When you were a kid, did you ever have the experience of wanting to see a favorite movie or a ballgame, only to discover that your weekly allowance had already been "blown" on something else?

©American Fletcher National Bank and Trust Company, 1975
(Revised, 1982)

1



In such "emergencies," you may have had the bright idea of opening a corner lemonade stand as a money-making device.

Perhaps without realizing it, in setting up your lemonade stand you put to work the basic principles of the American free enterprise system—the same ideas which, when multiplied millions of times over—have produced our huge corporations and the exchange of billions of dollars in our society every year.

The lemonade stand, after all, was designed to produce a profit—and that is the key word

2

in the free enterprise system. Just as you could not see your movie or ballgame without profits, most everything good which occurs in American life today could not happen without profits. Profits keep millions gainfully employed, they pay the bills, they finance everything the government does—in short, profits are vital for all of us.

The lemonade stand is a useful illustration of how the system works. Before you could start your lemonade stand, you had to think about some important factors which would affect your ability to make a profit:



1. *There had to be a need—and thus a market—for the product or service.* Since thirst, especially on a hot day, is a basic human need, you probably guessed that many people would want to buy lemonade.

2. *There had to be a way to distribute the product or service.*

You probably decided to set up your lemonade stand on a busy street corner, or near a park or golf course, where lots of people would pass. This would increase your chances to make sales, you reasoned.



3. *There had to be a reasonable charge for the product—enough to make money to meet expenses and have some left over, but not so much as to discourage buyers or to drive them away to a competing lemonade stand.*

4. *Finally, there had to be money to get the lemonade stand started in the first place—enough to buy the lemons, the sugar, the water, the ice, the wood for the stand, etc. In short, it took capital to buy the materials before that first glass of lemonade could be made and sold.*

If you were already broke, where did the money come from? A possible source could have been a friend who hadn't

"blown" his allowance and could be enticed into loaning you money in the *hope* that he would share in the profits and make some money for himself.

The word *hope* must be stres-



sed because you had no guarantee in free enterprise that your lemonade stand would sell and produce a profit. Thus, there was an element of chance in investing—even in a lemonade stand.

You had to worry that a shower might come up and drive away all your customers, forcing you to close down your stand! Or you had to wonder what would happen if some smart kid from the neighborhood opened another stand across the street and might undersell you by five cents a

glass! And you had to wonder if you might get "stuck" with five gallons of unsold lemonade and a gang of noisy kids demanding their investment back because the project didn't work out. Yes, you had to worry about risks—even in opening a lemonade stand.

Let's assume though, that the business was a success—that you sold lots of lemonade. So much lemonade, in fact, that you got the idea to expand—to open a stand on every corner of the block.

Then you had to worry about whether to use up all of the first day's profit for the new stands, or whether to hold some of it back and seek "new" money by finding others to become "shareholders" in the business.

Perhaps you would need to



take your first step in labor-management relations by hiring friends to work as salesmen—because you couldn't operate all four stands yourself. This would

mean bargaining with them about how much they would make an hour and how many hours they would work.

Then, too, you might need to get permission from someone to set up your stands on somebody else's property—perhaps even pay them rent to use it.

Yes, there were many factors to consider as you thought about expanding your new venture. It soon became clear, even in setting up a lemonade business, that as you grew larger you involved more people, took on more and more obligations and, thus, assumed a greater risk with each step along the way. You had to make a *profit* to keep your stand open, to buy all the ingredients, to pay your employees, to pay the rent, to maintain your stand and to have something left over for yourself.

Perhaps you never thought about it this way, but this story of the development of a lemonade stand symbolizes the way the entire business system in America has grown from humble beginnings to be the most productive, efficient economic system in the world today.

The history of our giant corporations—General Motors, RCA, U.S. Steel and the rest—

can be traced back to a time when one or two people had a bright idea about some product or service which people would buy, then proceeded to perfect and sell it.

The great Ford Motor Company, for example, began in the mind of Henry Ford, a young machinist's apprentice who liked to tinker around with an experimental gasoline engine in his spare time. He built his first motor in a small machine shop on his father's farm. When he tried to market it, his first business venture went into bankruptcy. But two years later, after he worked out some of the "bugs" in his engine, Henry Ford found a new group of investors, and the Ford Motor Company was born.

Or consider the story of King C. Gillette, a traveling salesman who deplored the morning chore of shaving with a straight razor which needed sharpening every day on a leather strop. With some crude metal bought at a hardware store, he fashioned the first double-edge disposable razor blade. Then with \$5,000 of borrowed money, Gillette set up a small factory to start producing his blades and razors.

From that small beginning



has evolved the multi-million dollar Gillette enterprise which is known the world over for its cosmetic products.

The creator of Mickey Mouse and Donald Duck—the immortal Walt Disney—started the same way. As an illustrator for an advertising agency, Disney struck upon the idea of making animated cartoons for the then young movie theatres. With \$500 borrowed from an uncle, he set up a small studio in his garage and began producing them on a small scale and sold them to neighborhood movie houses. Just think—Disneyland and Disney World all began in a garage!

The net effect of endless stories like these has been the creation of thousands of corporations in America which yearly produce goods and services valued at the staggering sum of *2.6 trillion dollars*—a

figure almost beyond comprehension. In a sense, a few lemons in the hands of innovative, courageous people have been converted into a "trillion-dollar lemonade stand."

With thousands of employees and millions of dollars in sales, our major corporations understandably are far more complex than a lemonade stand. But the same basic principles which were at work in your lemonade stand are forever present in the most gigantic corporation:

1. The constant need for capital to keep businesses growing.
2. The continuing push to develop goods and services which will be acceptable to the buying public.
3. The steady obligation to meet payrolls and other operating expenses and to pay back shareholders for their investment.
4. The growing demand by government for a bigger bite of corporate profits through taxation. (It is currently about 50 percent of net income.)

Without profit, none of these needs could be met—no money to develop new products and services or even to continue to produce old ones, no money to

pay employees and shareholders, no money to pay government taxes for its social programs. Profit, therefore, is the engine which keeps the country running.

This emphasis on profit, which goes under various names (free enterprise, capitalism, market economy, etc.) benefits everyone because it inspires competition throughout business.

Competition is beneficial because it forces business firms to produce the highest quality products and sell them at the lowest possible price if they are to outsell their competitors and make a profit.

In deciding to buy or not to buy, consumers really determine which companies will survive and which will not. The efficient firms which produce the best products and offer the best values to the public usually survive. Those which fail to meet consumer demands or are mismanaged usually perish. And many do not make it—60 percent of all new businesses fail in the United States during the first 30 months.

That may sound like a harsh system, but in the long run it serves the larger public interest. It assures the buying public of



receiving the desired products at the lowest possible cost. As unrealistic as it may seem, the competition for profit forces up efficiency, forces down prices and the consumer is the ultimate winner.

Critics of the profit system often charge that profits are too high, that companies make too much money. Recent polls, for example, have disclosed that many Americans believe the typical corporation profits about 28 cents on every dollar of sales. If true, that would be a whopping profit, indeed.

The truth is, however, that a typical American corporation makes only about five cents of

net profit on every dollar of sales. What happens to the other 95 cents?

To illustrate, let's take a typical corporation with \$100 million in annual sales. Of that total, about \$43 million will be paid in wages, salaries and benefits. Another \$43 million will be used to buy goods for use in manufacturing. About \$3 million will be used to replace worn-out tools and machinery, and about \$6 million will be paid in assorted taxes.

That leaves about \$5 million in net profit—about half of which will be used in further expansion of the business. The other half will be distributed to stockholders as dividends for the use of their money.

Those dividends paid to stockholders are of special interest. An increasing number of Americans, estimated at 30 million, now own stock in corporations. Thus, about one of every seven Americans is benefiting directly from the profit system as a shareholder in free enterprise.

The thrilling dimension of this story, however, is not that a few industrious people have gone from "rags to riches." The most important fact is the widespread

prosperity the profit system has produced for all of us—a higher standard of living for more people than any other system yet conceived by man.

Even with our recent problems of inflation, recession and the shrinking purchasing power of the dollar, American paychecks still buy more than virtually anyplace else in the world.

A recent study by a large Swiss bank, for example, shows that living standards in the United States rank well above the rest of the world. Americans must work fewer hours for the income to meet their basic needs. The bank's study shows that real income—the amount of goods and services that average paychecks will buy—is about 10 to 30 percent higher in America than in Australia, Canada and the more developed countries of Europe. The world's poorer countries lag even further behind.

The American worker in Chicago, for example, must work about 75 hours to pay for the same basic necessities that his counterpart in Tokyo will work 136 hours to buy. Some other comparisons also are revealing. To purchase what the Chicago



worker can buy for his 75 hours, the Paris resident must work 139 hours, the Londoner 150 hours, the Mexico City native 189 hours, and the Manila citizen a whopping 548 hours.

Relatively fat paychecks are a primary reason for the American lead. The typical American family today has an annual family income of \$19,000. Of all the civilized nations, only Switzerland really comes close to that figure.

Another factor which contributes to the higher standard of living for Americans is the smaller tax burden each American bears compared to his brothers abroad. That may seem hard to believe, but it's true.

While tax revenue as a percentage of the total output of goods and services has risen

from 26.6 percent to 31.3 percent in America over the last 20 years, it has risen much faster elsewhere. In virtually all the nations of Western Europe, for example, citizens pay out far more of their income in taxes than Americans. In Sweden, Netherlands, Norway, Denmark, Belgium, Austria and France, for example, the rate is above 40 percent.

The important fact to remember, however, is that the American worker is steadily increasing his standard of living while just as regularly decreasing the number of years he works in a lifetime, the number of weeks in a year, and the number of hours in a day.

The vast majority of American workers today—as the result of enlarged vacation schedules plus as many as eight paid holidays—are receiving almost three weeks more time off than their counterparts of years ago.

The free enterprise system has produced, for the first time in history, a nation whose predominant group is middle class. While poverty has not been completely eliminated, fewer Americans fall into that category than in any other nation in the

world. Today, for example, only 11.6 percent of the population is considered poor by official government standards—a remarkable improvement over the record of 30 years ago when 42.5 percent of Americans were classified as poor.

From virtually every perspective, the record adds up to a compelling argument that the free enterprise system is the best method yet conceived by man to provide the greatest prosperity for the largest number of people. And the whole system is held together by profit—and the incentive to earn it!

The evidence seems to indicate that the profit system is doing a magnificent job for the American people. Not perfect, to be sure, but impressive.

Not bad at all for something that begins with a lemonade stand!